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Canada

Q3 2013

VENTURE CAPITAL MONITOR

A QUARTERLY UPDATE ON THE CANADIAN VENTURE CAPITAL INDUSTRY

www.ic.gc.ca/vcmonitor

This publication by the Small Business Branch provides current information about the venture capital industry in Canada. The series will track trends in investment activity, report on topical research and look at key technology clusters where investment is taking place.

Introduction

This issue covers venture capital (VC) investment and fundraising activity in Canada during the third quarter of 2013.[1] It also describes recent government activity in the VC market.

VC Activity Overview

Investment and fundraising

Strong overall performance for Canadian VC in Q3 2013

Investment activity in Canada's VC market rose sharply in both deals and dollars in the third quarter of 2013 (Table 1 and Figure 1). Disbursements by VC funds totalled $570 million between July and September, up 56 percent from the $366 million invested at the same time in 2012. Also in Q3 2013, the number of VC deals involving Canadian companies totalled 123, up 40 percent year over year. It should however be noted that Canadian VC activity during the quarter was heavily influenced by several major transactions including the US$165 million financing for Vancouver-based HootSuite, the largest VC deal ever for the Canadian market.

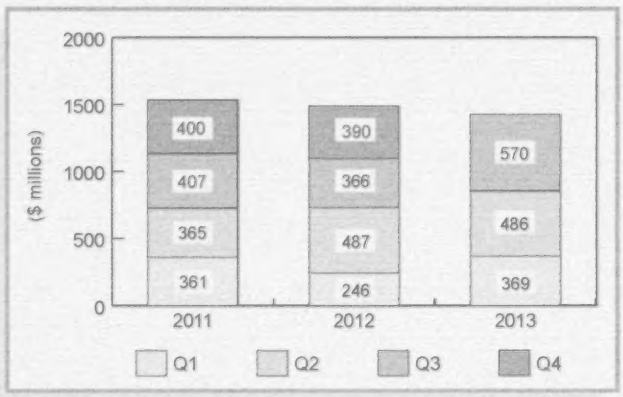
Table 1: VC investment and fundraising, Q3 2012 and Q3 2013

	Q3 2012	Q3 2013	Percent Change
	($ millions)		
Investment	366	570	56
Fundraising	42	258	514

Source: Thomson Reuters Canada 2013 and 2014.

In contrast with the first half of 2013, Canadian VC fundraising activity saw improvement during Q3 2013 with $258 million in new capital committed to funds over the quarter. The value of new capital raised in Q3 2013 was much greater than the $42 million committed to funds at the same time in 2012. This growth was a consequence of several major VC fundraising events described in the fundraising section below.

Figure 1: VC Investment by quarter, 2011 to 2013



Source: Thomson Reuters Canada 2014.

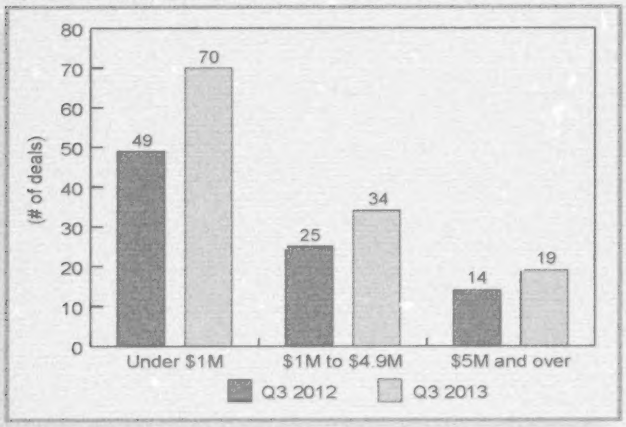
Deal size

Significant increase in deal sizes

Total deals completed during Q3 2013 rose in all ranges as 35 more deals were completed than over the same period the previous year (Figure 2). The increase in deals was most prevalent in the under $1 million dollar range, but was noted across all ranges. The average deal size was $4.6 million, higher than the $4.1 million per deal tracked in Q3 2012. As noted earlier, the principal source of higher average deal sizes over the quarter stemmed from several major deals, including the US$165 million Series B financing for Vancouver-based HootSuite.

1. Unless otherwise noted, data on investment are from Thomson Reuters as recorded in Thomson One on January 14, 2014; data on fundraising are from Thomson Reuters as published in the press release by Canada's Venture Capital & Private Equity Association "Canada's Buyout-Private Equity & Venture Capital Markets in Q3 2013."

Figure 2: Distribution of VC investment by deal size, Q3 2012 and Q3 2013



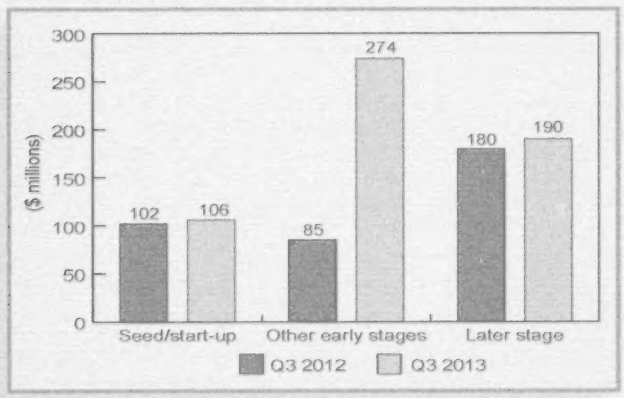
Source: Thomson Reuters Canada 2014.

Stage of development

Growth in investment heavily concentrated in firms at other early stages of development

The value of investments at all stages of development increased during Q3 2013 compared to Q3 2012. This growth in investment was most pronounced in firms at "other early stages" of development, which attracted $274 million this quarter as compared to $85 million over the same period during the previous year (Figure 3). Investors placed $106 million in seed and start-up companies over the quarter, a slight increase over the $102 million attracted over the same period in 2012. Later stage companies raised $190 million in Q3 2013, just slightly more than the $180 million raised in Q3 2012.

Figure 3: VC investment by stage of development, Q3 2012 and Q3 2013



Source: Thomson Reuters Canada 2014.

New versus follow-on investments

Total number of deals split evenly among new and follow-on

Of the 123 deals completed during the quarter, 61 were first time investments while another 62 were follow-on investments (Table 2). The value of new deals was $189 million, $13 million less than the $202 million placed into new deals over the same period in 2012.

Table 2: Number of companies that received new and follow-on investments, Q3 2012 to Q3 2013

Total Investment		Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
New	Seed/ start-up	22	38	21	33	42
	Other early stages	4	11	13	3	7
	Later stage	8	7	9	15	12
	All	**34**	**56**	**43**	**51**	**61**
Follow-on	Seed/ start-up	8	12	9	18	17
	Other early stages	25	30	23	19	17
	Later stage	21	24	30	24	28
	All	**54**	**66**	**62**	**61**	**62**
Total		**88**	**122**	**105**	**112**	**123**

Source: Thomson Reuters Canada 2014.

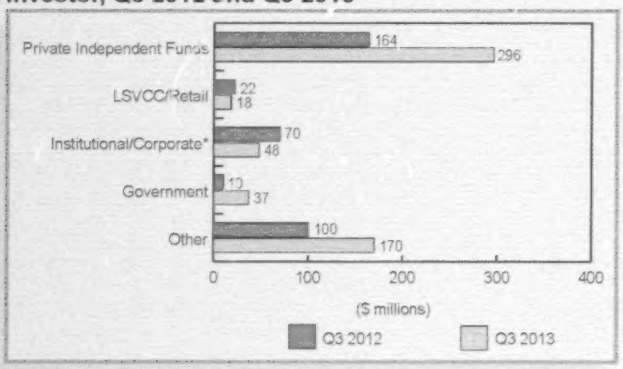
Type of investor

Increase in investments from private independent funds

Investment activity over the quarter was led by private independent funds, which cumulatively put $296 million to work in Canadian companies (Figure 4). Investments by Labour Sponsored Venture Capital Corporations (LSVCC) reached a single-quarter low during Q3 2013 with only $18 million invested into companies.

American and other foreign VC funds were active in the Canadian market between July and September, bringing in $245 million to deals, up 131 percent from the $106 million they contributed at the same time last year. A further $252 million was placed by Canadian funds and $72 million in VC was invested by funds from locations that Thomson Reuters could not disclose.

Figure 4: Distribution of VC investment by type of investor, Q3 2012 and Q3 2013



* Institutional/Corporate refers to direct investments by banks, financial institutions, endowments, foundations, pension funds and corporate venture funds.
Source: Thomson Reuters Canada 2014.

Fundraising

Increase in fundraising during the quarter

In contrast with the first half of 2013, Canadian VC fundraising activity increased during the third quarter with VC funds raising $258 million (Table 1). The value of new capital raised in Q3 was much greater than the $42 million committed to funds in Q3 2012.

This growth was a consequence of several major VC fundraising events[2] in the third quarter, including the $120 million final close of the fourth partnership of EnerTech Capital and the allocation within the Business Development Bank of Canada (BDC) of $135 million to its Healthcare Fund. As well, the BDC and the Fonds de solidarité FTQ announced a $30 million investment in the U.S.-based Sanderling Ventures fund, which will establish a facility in Montréal.

The other positive development in the quarter was the announcement by the federal government of the Venture Capital Action Plan's intent to make a total of $50 million in commitments to CTI Life Sciences Fund II, Lumira Capital II, Real Ventures Fund III and Summerhill Ventures II.

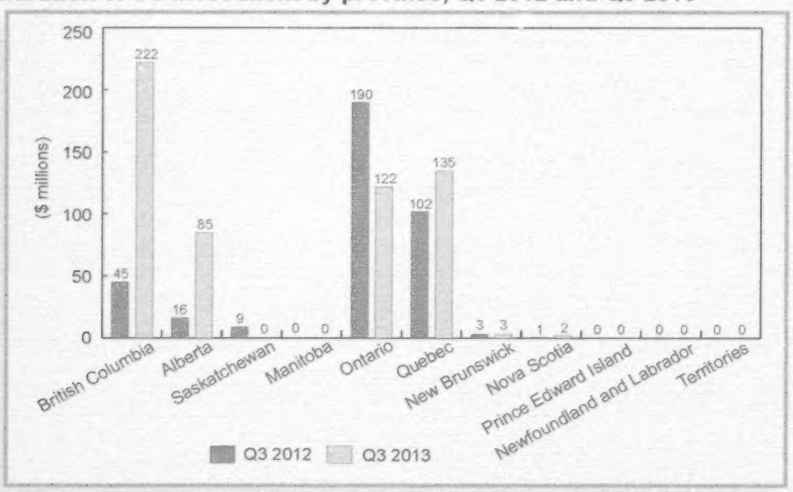
Regional distribution

British Columbia experiences a very strong quarter

British Columbia experienced a record level of investment during the quarter due mainly to the $165 million placement into HootSuite. Similarly, Alberta experienced a very strong quarter, attracting $85 million in Q3 2013, due in part to a $42-million investment in the agricultural-technology company Sulvaris. Quebec also saw a year-over-year increase in investments levels over the quarter as Quebec-based firms attracted $135 million in Q3 2013 as compared to $102 million over the same period the previous year (Figure 5 and Table 3).

In contrast, Ontario experienced a very weak quarter over Q3 2013. Only 20 percent of total Canadian VC activity over the quarter took place in Ontario as $122 million was placed into 46 companies. About half of all Canadian VC dollars were placed into Ontario companies over the same period the previous year.

Figure 5: Regional distribution of VC investment by province, Q3 2012 and Q3 2013



Source: Thomson Reuters Canada 2014.

2. Note that only a portion of the EnerTech Capital and Sanderling Ventures funds closed in Q3 2013. As well, Thomson Reuters counted only a portion of the Sanderling Ventures fund as Canadian fundraising.

Table 3: Number of companies receiving VC by province, Q3 2012 and Q3 2013

Province	Q3 2012	Q3 2013	Percent Change
British Columbia	14	17	21
Alberta	8	15	88
Saskatchewan	4	3	-25
Manitoba	0	0	n/a
Ontario	32	46	44
Quebec	27	31	15
New Brunswick	2	7	250
Nova Scotia	2	3	50
Prince Edward Island	0	0	n/a
Newfoundland and Labrador	0	1	n/a
Territories	0	0	n/a

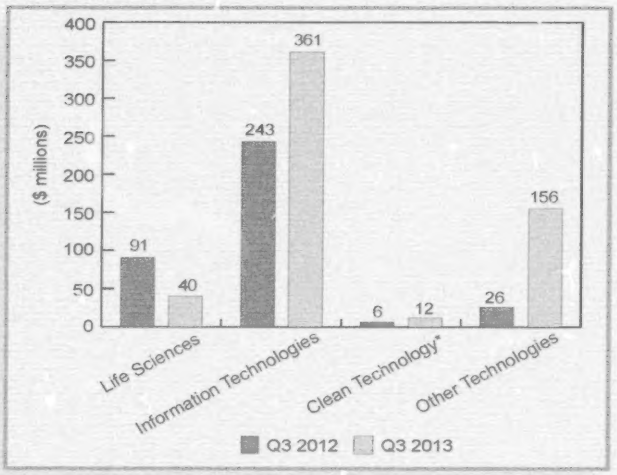
Source: Thomson Reuters Canada 2014.

Sector distribution

Increase in investment IT and traditional sectors driven by a few large deals

During Q3 2013, the information technology sector attracted the large majority of VC investment in Canada, $361 million, a major part of which was the HootSuite deal (Figure 6). This represents a 48 percent increase in the IT sector year-over-year. Investment in life sciences companies totalled $40 million during Q3 2013, down 56 percent from the same period in 2012. Companies in traditional sectors raised a total of $156 million in VC during the quarter, including the investment in Sulvaris noted previously.

Figure 6: VC investment by industry sector, Q3 2012 and Q3 2013



*Clean Technology refers to companies that are developing clean technologies and that are not already included in the industry sectors of Life Sciences or Information Technologies.
Source: Thomson Reuters Canada 2014.

Government Activities

Business Development Bank of Canada activities

During Q3 2013, the BDC authorized VC investments totalling $15.3 million into 22 companies (Table 4). These financings were leveraged to a total of $46.3 million including contributions by co-investors.[3]

Table 4: VC activities of the Business Development Bank of Canada, Q3 2013

	BDC	Co-investors	Total	Number of deals
	($ millions)			
Seed/start-up	5.6	7.5	13.1	15
Development	4.9	7.1	12.0	2
Later stage	1.8	7.4	9.2	4
Other	3.0	9.0	12.0	1
Total	**15.3**	**31.0**	**46.3**	**22**

Source: Business Development Bank of Canada 2014.

3. These amounts refer to what the BDC "authorized." Therefore, these amounts may differ from the amounts considered in the rest of this publication, which are based on amounts disbursed.

Notes

This publication is part of a series prepared by the Small Business Branch. The branch analyses the financial marketplace and how trends in this market impact small businesses' access to financing.

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